Office of the Auditor General of Canada

2009–10 Estimates

Performance Report

Approved

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Message from the Auditor General of Canada

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Sheila Fraser, Auditor General of Canada

I am pleased to present the Office's 2009–10 Performance Report. As my mandate is ending next spring, this is the last such report I will be presenting on behalf of the Office of the Auditor General of Canada. A summary of our performance for the year follows this message.

The Office of the Auditor General of Canada is the legislative audit office for the federal government. It is also the auditor for the governments of Nunavut, Yukon, and the Northwest Territories. We conduct independent audits and studies in departments and agencies, Crown corporations, and many other federal organizations to provide Parliament, territorial legislatures, governments, and Canadians with objective information and assurance regarding the use of public funds. During the 2009–10 fiscal year, we completed 147 financial and performance audits, special examinations of Crown corporations, and other reports.

Our reports describe areas of government that need attention, underscore good practices, point to the causes of problems, and make recommendations for improvement. Along with our testimony at parliamentary hearings, they assist Parliament in carrying out its important role of holding the government to account for the results it achieves with taxpayer dollars. By carrying out our distinct roles and working together effectively, Parliament, the government, and my Office all contribute to maintaining healthy public institutions and to well-managed, accountable government for Canadians.

Surveys of our clients showed that satisfaction remained high and at or near our targets for measuring whether our audits add value for them. Senior managers in departments assessed the value of our performance audits slightly below the five-year average. We do not believe this result warrants any specific response on our part at this time. Overall, we are pleased to see that our clients continued to be satisfied with our work and the value it added.

Departments report that they have substantially or fully implemented 90 percent of the performance audit recommendations in reports we tabled in 2005–2006. Furthermore, our most recent follow-up audits found satisfactory progress in five of the seven areas we examined.

The Office identified three strategic priorities for the 2009–10 fiscal year:

- Sustaining capacity
- Integrating changes to professional standards
- Improving resource allocation and project management

We have made good progress in completing the activities planned to respond to these priorities.

We have been working to improve our ability to complete audits on budget since 2008. In 2009–10, we focused on improving resource allocation. We are pleased to report that we met all our on-budget targets for our audits this year, and have raised these targets for 2010–11.

Our work to integrate changes to professional standards continues. In addition, the Office identified areas for improvement in all its practices as a result of internal practice reviews and of the international peer review that took place during the year. We have developed action plans to continue to improve our audit and assurance practices. We have also undertaken a project to renew our audit methodology, which includes a major update of our audit methodology and guidance manuals. A strategy has also been approved to update our professional development curriculum for auditors.

The Office's 2010 employee survey showed that employee engagement remains high. For the third year in a row, the Office has been recognized as one of Canada's Top 100 Employers and Top 25 Family-Friendly Employers. We see these results as recognition of the efforts we make to ensure our employees are fulfilled in both their professional and personal lives. I wish to thank them for their continued dedication to the Office and the Parliament we serve. Our accomplishments would not be possible without their exceptional competence and professionalism.

I trust you will find that this performance report presents an open and balanced picture of our activities and impacts in 2009–10.

Sheila Fraser, FCA
Auditor General of Canada

13 September 2010

Performance summary

Overall, the Office is satisfied with its performance for 2009–10.

Highlights

We completed virtually all of our planned activities in response to our three priorities for this year. We have met all of our on-budget targets for our audits and have raised these targets for 2010–11. We also reduced or redeployed resources consistent with our plans to not request additional funding while carrying out new audit responsibilities.

We surveyed our main client—members of the four parliamentary committees who regularly review our work. An average of 93 percent of responses indicate they "agree" or "strongly agree" that our audits are of value to them; the result exceeded our target.

We also surveyed our other clients. Responses from audit committee chairs indicated that they find our financial audits valuable to them; the result exceeded our target. Responses from board chairs for our special examinations were positive, though below our target.

In addition, we surveyed senior managers of the organizations we audit. Their responses continue to be at or near our targets for measuring whether our audits add value for them, except for departmental senior managers. They assessed the value of our performance audits at slightly below the five-year average, a result that we believe does not warrant any specific response on our part at this time.

We obtained an overall satisfaction rating of 78 percent in our 2010 employee satisfaction survey, which falls just short of our target of 80 percent and is lower than levels attained in past surveys. Employee engagement remains high with 89 percent of staff proud to work for the Office.

For the third year in a row, the Office was recognized as one of Canada's Top 100 Employers and one of Canada's Top 25 Family-friendly Employers.

Areas for improvement

In 2009–10, 18 internal practice reviews were completed, and an international peer review was conducted, which encompassed all three of our main audit practices as well as key services that directly support audit operations. The peer review found that our quality management system (QMS) is suitably designed and is operating effectively in two of the three audit practices. The reviewers made two recommendations for improving our financial audit practice. Our internal practice reviews identified similar areas for improvement. We have developed action plans for each of the three audit practices in response to the internal practice reviews and to the international peer review. In addition, we have undertaken the Renewal of Audit Methodology (RAM) project, which includes a major update of our audit methodology and manuals. A strategy has also been approved to update our professional development curriculum for auditors.

Results of our work

In monitoring government responses to our work, we note the following examples from our audit results:

- When financial statements are prepared in accordance with appropriate accounting policies, a "clean" opinion is rendered by the auditor. The Office has been able to render such an opinion on the federal government's summary financial statements in each of the past 11 years. This opinion provides Parliament and others with assurance that they can rely on the information presented in these financial statements. This is particularly significant since there are very few countries that receive such an opinion, and it is a tribute to the quality of financial reporting by the federal government.
- Departments report that they have substantially or fully implemented 90 percent of the performance audit recommendations in reports we tabled four years ago. Our most recent follow-up audits found satisfactory progress in five of the seven areas we examined.
- The organizations we audited in 2009–10 addressed nine of the 22 reservations contained in our 2008–09 financial audit opinions. Of the 13 reservations not addressed, only one was in an audit report of a federal organization. Many territorial organizations continue to face a challenge in having the financial management capacity they require.
- For the special examinations we completed this year, one of two significant deficiencies from the previous reports was not addressed by the Crown corporation. This deficiency was reported in our audit of Marine Atlantic Inc.
- We undertook an audit to determine whether the Canada Revenue Agency adequately administered advance deposits from corporate taxpayers under the *Income Tax Act* and the *Income Tax Regulations*. The audit examined whether the Agency adequately monitored and managed these accounts where it might be obliged to pay interest. The audit concluded that the Canada Revenue Agency needed to develop a robust administrative policy on managing advance deposits and apply it consistently to reduce unnecessary interest costs. The government recognized broader implications of the issues discussed in our report and, in Budget 2010, announced that the interest rate would be reduced. The government anticipates that this action will result in potential savings of $645 million over the next five years.
- Ministers delivered 91 percent of responses to public petitions on environmental matters during the year within the 120-day time limit specified in the *Auditor General Act*, compared with 83 percent last year.

Going forward, the Office's priorities are to effectively manage the transition to a new Auditor General (as the mandate of the current Auditor General ends in May 2011) and to successfully implement our Renewal of Audit Methodology project.

Section I—Overview

Who we are

The Office of the Auditor General of Canada is the legislative audit office of the federal government. We are also the legislative auditor of the three territories. We conduct independent audits and studies that provide objective information, advice, and assurance to Parliament, territorial legislatures, governments, and Canadians. With our reports and testimony at parliamentary hearings, we assist Parliament in its work on the authorization and oversight of government spending and operations.

What we do

The Auditor General is an Officer of Parliament, who is independent from the government and reports directly to Parliament. Her duties are set out in the *Auditor General Act*, the *Financial Administration Act*, and other acts and orders-in-council. These duties relate to legislative auditing and, in certain cases, to monitoring of federal departments and agencies, Crown corporations, territorial governments, and other entities.

The Office of the Auditor General's main legislative auditing duties are

- financial audits,
- performance audits,
- special examinations,
- sustainable development monitoring activities and environmental petitions, and
- assessments of agency performance reports.

Financial audits

Our financial audits provide assurance that financial statements are presented fairly in accordance with Canadian generally accepted accounting principles or, in a few cases, with other relevant standards. Where required, we provide assurance that the organizations we audit comply, in all significant respects, with legislative authorities that are relevant to a financial audit. We also conduct financial audits of federal and territorial Crown corporations and of other organizations. We audit the summary financial statements of the Government of Canada and each of the three territories (Nunavut, Yukon, and the Northwest Territories).

If issues or opportunities for improvement in areas such as financial reporting and internal controls come to our attention during our financial audit work, we make recommendations to management. We also provide information and advice to support audit committees in meeting their responsibilities for oversight of financial reporting and internal control.

Performance audits

Performance audits examine, against established criteria, whether government programs are being managed with due regard to economy, efficiency, and environmental impact, and whether the government has the means to measure and report their effectiveness. Our reports contain recommendations for addressing the most serious deficiencies identified.

The *Auditor General Act* gives the Office the discretion to determine what areas of government it will examine in its performance audits. We may decide to audit a single government program or activity, an area of responsibility that involves several departments or agencies, or an issue that affects many departments and agencies. We consider requests for audits that we receive from parliamentary committees. However, the final decision about what to audit is made by the Auditor General.

Special examinations

Our special examinations assess the systems and practices maintained by Crown corporations. A special examination provides an opinion to the board of directors of the corporation on whether there is reasonable assurance that there are no significant deficiencies in these systems and practices. A significant deficiency is a major weakness that could prevent the corporation from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. In addition to reporting on significant deficiencies, our special examinations highlight systems and practices that contribute to success and provide information and recommendations to boards of directors about opportunities for improvement.

All parent Crown corporations are subject to a special examination by the Office, except the Bank of Canada, which is exempted from this requirement, and the Canada Pension Plan Investment Board, which, under its Act, is subject to a special examination by an auditor chosen by the board of directors. In early 2009, the *Budget Implementation Act, 2009* changed the frequency of special examinations required under the *Financial Administration Act* (FAA) to at least once every 10 years, from at least once every five years.

Sustainable development and environmental petitions activities

The Commissioner of the Environment and Sustainable Development assists the Auditor General in performing her duties related to the environment and sustainable development. The Commissioner conducts performance audits to monitor the government's management of environmental and sustainable development issues and, on behalf of the Auditor General, reports to Parliament on issues that should be brought to its attention.

Under the *Kyoto Protocol Implementation Act*, the Commissioner is required to provide Parliament with a biennial report; this report includes an analysis of Canada's progress in implementing its climate change plans; an analysis of Canada's progress in meeting its obligations under Article 3, paragraph 1, of the Kyoto Protocol; and any observations and recommendations on any matter that the Commissioner considers relevant.

With passage of the *Federal Sustainable Development Act* in June 2008, the Commissioner was given the responsibility of reviewing a draft of the federal government's sustainable development strategy and

commenting on whether the targets and implementation strategies can be assessed. The first federal strategy must be tabled in the House of Commons no later than June 2010.

Once every three years, beginning in 2011, 28 federal departments must prepare sustainable development strategies that contribute to and comply with the federal strategy. The Commissioner must report annually to the House of Commons on the extent to which departments subject to the *Federal Sustainable Development Act* have contributed to meeting the targets set out in the federal strategy and have met the objectives and implemented the plans set out in their own sustainable development strategies. In June 2011, the government must report on progress in implementing its strategy. The Commissioner must assess the fairness of the information contained in the government's progress report.

The Commissioner also administers the environmental petitions process. He monitors responses to environmental petitions, and reports annually to Parliament on petitions activities from the previous year, including instances where ministers' responses to petitions were not provided within the 120-day time limit specified in legislation. The Office of the Auditor General considers issues raised in petitions when planning future audits.

Assessments of agency performance reports

The legislation governing the Parks Canada Agency, the Canadian Food Inspection Agency, and the Canada Revenue Agency requires the Auditor General to periodically carry out an assessment of the fairness and reliability of the performance information reported in their annual reports against corporate objectives they provided to Parliament.

Professional practices

In order to ensure the reliability and consistency of our audit work, the Office makes an ongoing investment in professional practices. This investment supports

- the development and maintenance of up-to-date audit methodology, guidance, and audit tools;
- communication and training to promote consistency in the application of audit methodology and our Quality Management System; and
- the provision of advice on the interpretation and application of professional standards, Office policies, audit methodology, and the Office's Quality Management System.

Through the Professional Practices Group, the Office works with other legislative audit offices and professional associations, such as The Canadian Institute of Chartered Accountants, to advance legislative auditing methodology, accounting and auditing standards, and best practices. We regularly participate in external reviews of other national legislative audit offices and are the subject of external reviews.

International activities

Our international strategy guides our international activities and positions the Office to meet future opportunities and challenges. The strategy has four goals:

- contributing to the development and adoption of appropriate and effective professional standards;

- sharing knowledge among audit offices;
- building capabilities and professional capacities of audit offices; and
- promoting better managed and accountable international institutions.

(See "Our international contribution" in Section II for more details).

Strategic outcome and performance summary

The long-term strategic outcome of the Office of the Auditor General is to contribute to better-managed government programs and better accountability to Parliament through our legislative auditing work.

We have identified a number of results that we expect to achieve with our audits in the short, medium, and long terms. In the short term, we want to engage Parliament and federal and territorial organizations in the audit process, ensure that Parliament is well informed about our work, and maintain support for our role and work. In the medium term, we want to assist Parliament in holding the government to account; make our work relevant to federal and territorial organizations, departments, agencies, and Crown corporations; and ensure that the public is well informed about our work. In the long term, we want our work to lead to more effective, efficient, and economical government programs and operations, and programs that foster sustainable development (Exhibit 1).

Exhibit 1—Performance summary

Strategic Outcome: We contribute to a well-managed and accountable government for Canadians.		
Expected Results • Parliament is well-informed. • Parliament and federal and territorial organizations are engaged in the audit process. • Parliament holds government to account. • Our work is relevant to federal and territorial organizations, departments, agencies, and Crown corporations. • The media and public are well-informed. • Support for our role and work is maintained.		**Actual results** We completed 25 performance audits, one study, 111 financial audits, and 10 special examinations.
Objectives	**Indicators and targets**	**2009–10 Performance**
Key users of our reports are engaged in the audit process.	Maintain percent of audits that are reviewed by parliamentary committees. Maintain number of parliamentary hearings and briefings we participate in, relative to the number of sitting days.	Level of engagement is consistent with prior years.
Our work adds value for the key users of our reports.	Maintain or increase percent of users who find our audits add value.	Targets exceeded for financial and performance audits; not met for special examinations.
Our work adds value for the organizations we audit.	Maintain or increase percent of senior managers who find our audits add value.	Targets exceeded for financial audits and special examinations; not met for performance audits.
Key users of our reports and the organizations we audit respond to our findings.	Maintain or increase percent of recommendations that are implemented or reservations/deficiencies that are addressed.	Targets exceeded for performance audits; not met for financial audits and special examinations.

Exhibit 1—Performance summary (continued)

Legislative auditing activity[1]	2008–09 Actucl spending[2] ($ millions)	2009–10 Forecast spending[3] ($ millions)	2009–10 Actual spending ($ millions)
Financial audits of Crown corporations, territorial governments, and other organizations, and of the summary financial statements of the Government of Canada	36.3	41.3	40.0
Performance audits and studies of departments and agencies	44.6	41.5	42.9
Special examinations of Crown corporations	8.2	4.5	4.1
Sustainable development monitoring activities and environmental petitions	1.8	2.3	1.2
Assessments of agency performance reports	0.4	0.5	0.4
Professional practices	9.6	11.8	11.6
Total cost of operations	100.9	101.9	100.2
Less: Costs recovered[4]	(0.9)	(1.1)	(0.9)
Net cost of operations	100.0	100.8	99.3

[1] We have allocated the cost of audit services to each legislative auditing activity.

[2] Actual spending is restated to reflect the reclassification of products in our revised product costing methodology.

[3] Forecast spending is as reported in the 2010–11 Report on Plans and Priorities.

[4] The Office is funded in our appropriation, for the audits of the International Civil Aviation Organization (2008–09 only) and of the International Labour Organization. Amounts recovered from these organizations are returned to the Consolidated Revenue Fund as non-respendable revenue.

We gather information on the impact of our work and have established indicators and targets to measure the results for our three major activities: financial audits, performance audits, and special examinations. The following section describes the main activities, expected results, performance objectives, indicators and targets, and planned financial resources for each of these activities.

We have a set of measures of organizational performance, also presented in the following section, that help us monitor the extent to which

- our work is delivered on time and on budget,
- our audit reports are reliable, and
- we provide a respectful workplace.

Tables summarizing all of our targets and actual performance, and a rationale for how we define our targets, appear in Section III, Supplementary Information.

Section II—Reporting on Results

Our priorities for 2009–10

The Office identified three strategic priorities for the 2009–10 fiscal year: sustaining our capacity, integrating changes to professional standards, and improving resource allocation and project management.

Sustaining our capacity

Our people are central to our ability to fulfill our responsibilities and achieve our strategic outcome. Since 2006, we have identified various human resource issues as priorities for the Office. In 2009–10, sustaining our capacity continued to be a major challenge and priority. To address this priority, during the year we completed most of the planned activities, including

- adopting the Strategic Methodology Plan to focus on the most important development needs of our auditors,
- completing virtually all of the planned expansion of our methodology teams to enhance their capacity to support our auditors, and
- increasing the number of financial accounting students we recruit.

We also approved and partially completed the Human Resource Integration Project—a vehicle to promote retention and engagement of staff.

Integrating changes to professional standards

In 2007–08, we began to increase our efforts to integrate upcoming changes to professional standards into our policies, methodology, training, and practices. This past year, we delivered on two main initiatives that were identified in our Strategic Methodology Plan: We are revising our guidance material, templates, and electronic working paper files to reflect the new Canadian Auditing Standards; and we delivered baseline training to all of our financial auditors. We continued to roll out necessary training in keeping with a multi-year plan we developed for adopting new accounting standards known as International Financial Reporting Standards (IFRS). We also continued to deliver new audit tools to support our financial auditors.

During the year, we identified a need to update and strengthen the design and implementation of our Quality Management System. This has become one of our strategic priorities for 2010–11. To address this new priority and to continue to integrate the changes to professional standards, we developed a comprehensive strategic plan for the Renewal of Audit Methodology (RAM) for all of our audit products. This two-year plan outlines the scope, timelines, estimated effort and financial resource requirements, and it formalizes the management of this large initiative. We have begun implementing this plan, which involves a major update of our audit methodology and manuals. As well, we are reviewing and updating our professional development curriculum.

Improving resource allocation and project management

We have been working to improve our ability to complete our audits on budget since 2008. In 2009–10, we

- completed a study of the practices for establishing and monitoring audit budgets throughout the office to identify best practices and challenges;
- approved our Budget Management of Individual Audit Products Action Plan, which provides support for managing budgets and encourages best practices; and
- explicitly considered on-budget performance in our 2009 performance appraisals.

Later in this performance report, we present the details of the year's results for on-budget performance. We are pleased that we have improved our results and met all of our targets for this measure. We have raised our targets for on-budget performance to 80 percent, beginning in 2010–11.

We also continued to facilitate staff allocation to projects through our Audit Resource Planning and Career Management Team.

Funding new Office work

In our 2009–10 Report on Plans and Priorities, we noted that, in light of the fiscal climate, the Office would not be seeking additional funding to carry out new audit responsibilities we were given. Rather, we identified a number of ways in which we would redirect our existing resources. We planned 25 performance audits—a reduction from 30 in recent years—and tabled two rather than three reports. We reduced our use of externally contracted resources for our audits and, as a result, reduced these expenditures by about $1,750,000.

Performance highlights by main activity

Indicators of impact

We measure our impact and performance for our three main activities:

- financial audits of Crown corporations, territorial governments, and other organizations;
- performance audits and studies of departments and agencies; and
- special examinations of Crown corporations.

The following sections summarize the results for 2009–10 for each of these activities.

Financial audits of Crown corporations, territorial governments, and other organizations

Financial audits answer the following questions:

- Are the annual financial statements of Crown corporations, the federal and territorial governments, and other organizations presented fairly?
- Are these entities complying with their legislative authorities?

Exhibit 2 summarizes our results for financial audits for 2009–10.

Exhibit 2—Results for financial audits

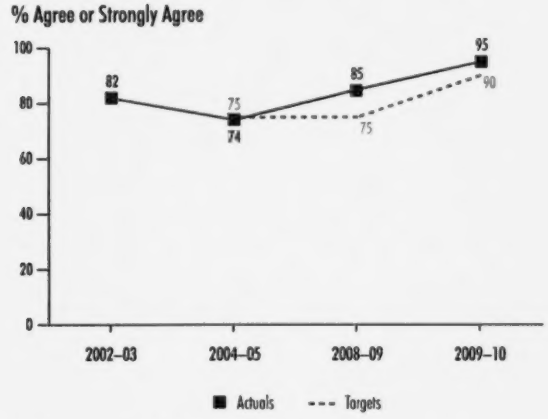
Expected results • Parliament and federal and territorial organizations are engaged in the audit process. • Parliament holds government to account. • Our work is relevant to federal and territorial organizations, departments, agencies, and Crown corporations.		**Actual results** We completed 111 financial audit reports that provided the recipients, and ultimately Parliament, with an independent opinion that they can rely on the financial information we examined.	
Objectives	**Indicators and targets**	**Performance summary**	**Performance status**
Our work adds value for the key users of our reports.	90 percent of audit committee chairs find our financial audits add value.	95 percent of audit committee chairs who responded to our survey found our financial audits add value.	Exceeded
Our work adds value for the organizations we audit.	80 percent of Crown corporation and large-department senior managers find our financial audits add value.	85 percent of Crown corporation and large-department senior managers who responded to our survey found our financial audits add value.	Exceeded
Key users of our reports and the organizations we audit respond to our findings.	100 percent of the reservations in our audit opinions are addressed from one financial audit to the next.	41 percent of the reservations in our 2008–09 audit opinions were addressed from one financial audit to the next.	Not met
Financial resources 2009–10: $40.0 million			

Our work adds value for key users of our reports and the organizations we audit. To understand the value of our financial audits, we conduct surveys of the chairs of audit committees and other bodies with responsibility for oversight of financial reporting, and of senior managers in the organizations we audit. The surveys are available on our website.

Our target is for 90 percent of audit committee chairs to find that our audits add value. In 2009–10 an average of 95 percent of respondents indicated that they "agree" or "strongly agree" in response to all five statements used to measure value added.

Exhibit 3 shows the trend for audit committee chair responses. We conducted biennial surveys in 2002–03 and 2004–05, and began annual surveys in 2008–09. The assessment of audit committee chairs in 2009–10 was the best of the four surveys conducted to date.

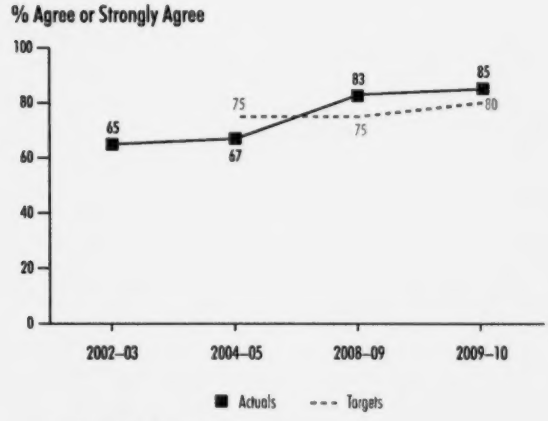
Exhibit 3 – Financial audits add value for audit committee chairs



*There was no target before 2004–05.

For the percentage of senior managers of Crown corporations and large departments who "agree" or "strongly agree" that our financial audits add value, our target is 80 percent. Exhibit 4 shows the trend for senior manager responses. The result in 2009–10 was an average of 85 percent, the highest obtained in the surveys to date (Exhibit 4).

Exhibit 4 – Financial audits add value for senior managers



*There was no target before 2004–05.

Key users of our reports and the organizations we audit respond to our findings. For our financial audits, we monitor the corrective action taken by the organizations we audit in response to reservations of opinion contained in our reports. Our indicator is the percentage of reservations that are addressed by the organizations we audit from one report to the next. While we do not control whether organizations respond to reservations in our reports, our target is 100 percent.

There are two types of reservations that are presented in our financial audit reports: reservations related to financial accounting and auditing issues, and reservations related to compliance-with-authorities issues. Financial accounting reservations report material departures from the requirements of the applicable financial reporting framework. Auditing reservations report situations where the auditor is unable to obtain sufficient appropriate audit evidence. Our reports can also contain other matters—for example, these might include comments concerning an organization's financial sustainability or ability to fulfill its mandate. Beginning in 2008–09, we have included compliance-with-authorities reservations and "other matters," as well as financial accounting and auditing reservations, in the calculation of this performance indicator.

In completing our financial audits in 2009–10, we found that nine of the 22 reservations contained in our 2008–09 financial audit opinions had been addressed by the organizations we audit. Of the 13 reservations that had not been addressed, three were auditing reservations, one was an accounting reservation, and nine were compliance-with-authorities issues. Five of those nine, all in territorial corporations, were for the corporations' failure to table their annual report on time. All of the accounting and auditing reservations were in territorial corporations. Many territorial organizations continue to face a challenge in having the financial management capacity they require. Only one of the 13 reservations was in an audit report on a federal organization.

Performance audits and studies of departments and agencies

Performance audits and studies answer the following questions:

- Are federal government programs well managed?
- Have they been run with due regard to economy, efficiency, and their environmental effects?
- Does the government have the means to measure their effectiveness where it is reasonable and appropriate to do so?

In 2009–10, we completed 25 performance audits and one study. A list of these is in Section III—Supplementary Information.

Exhibit 5 summarizes our results for performance audits and studies for 2009–10.

Exhibit 5—Results for performance audits and studies

Expected results		Actual results	
• Parliament and federal and territorial organizations are engaged in the audit process. • Parliament holds government to account. • Our work is relevant to federal and territorial organizations, departments, agencies, and Crown corporations.		We completed 25 performance audits and one study, a number reduced from recent years as planned.	
Objectives	**Indicators and targets**	**Performance summary**	**Performance status**
Key users of our reports are engaged in the audit process.	Maintain percentage of performance audits that are reviewed by parliamentary committees. Maintain number of parliamentary hearings and briefings we participate in.	Parliamentary committees reviewed 68 percent of our performance audit reports—a slight increase from the previous year. We participated in 39 committee hearings and briefings over the 113 parliamentary sitting days. This is higher than last year and is consistent with the average in previous years.	Exceeded
Our work adds value for the key users of our reports.	90 percent of selected parliamentary committee members find our performance audits add value.	93 percent of parliamentarians surveyed agreed that our audit reports add value.	Exceeded
Our work adds value for the organizations we audit.	70 percent of departmental senior managers find our performance audits add value.	56 percent of departmental senior managers who responded to our survey found our performance audits add value.	Not met. Result is only slightly below the five-year average. We will continue to monitor this indicator.
Key users of our reports and the organizations we audit respond to our findings.	75 percent of performance audit recommendations are substantially or fully implemented four years after their publication.	Departments reported that they had substantially or fully implemented 90 percent of the performance audit recommendations made in the reports we tabled four years ago.	Exceeded
Financial resources 2009–10: $42.9 million			

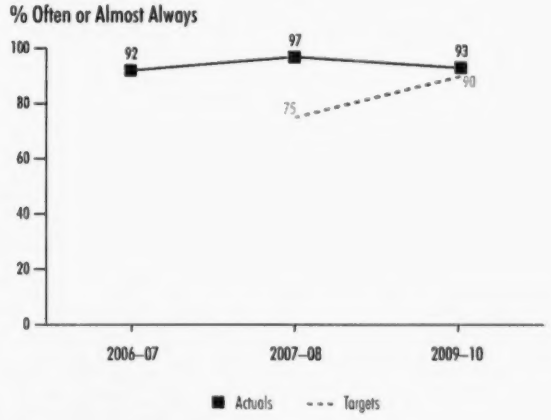
Key users of our reports are engaged in the audit process. While many parliamentary committees draw on our work, the Office's main relationship is with the Standing Committee on Public Accounts. The Commissioner of the Environment and Sustainable Development usually appears before the House of Commons Standing Committee on Environment and Sustainable Development.

We monitor the level of involvement of parliamentary committees by tracking the number of audits reviewed by committees. We also assess the committees' level of interest in our reported findings by looking at how frequently they ask us to appear before them to further elaborate on our findings. Our appearances before committees assist parliamentarians in fulfilling their oversight role and give us the opportunity to increase awareness and understanding of the issues in our reports.

Our work adds value for the key users of our reports. We periodically carry out surveys of the members of four key parliamentary committees that review our reports: the House of Commons Standing Committee on Public Accounts; the House of Commons Standing Committee on Environment and Sustainable Development; the Senate Standing Committee on National Finance; and the Senate Standing Committee on Energy, the Environment and Natural Resources. In June 2010, we conducted a survey requesting feedback on performance audits reported in the past year. We received 21 responses this year (42 percent of members surveyed), a slight decrease from previous years.

Our target is to have 90 percent reply "often" or "almost always" in response to five statements that are used as an indication that our audits add value. In 2009–10 the result was an average of 93 percent. Exhibit 6 shows the trend for responses to the parliamentary survey. We exceeded the target of 75 percent in the 2007–08 survey. In 2009–10 we increased the target to 90 percent, and exceeded that target in our most recent survey.

Exhibit 6 – Performance audits add value for parliamentary committee members

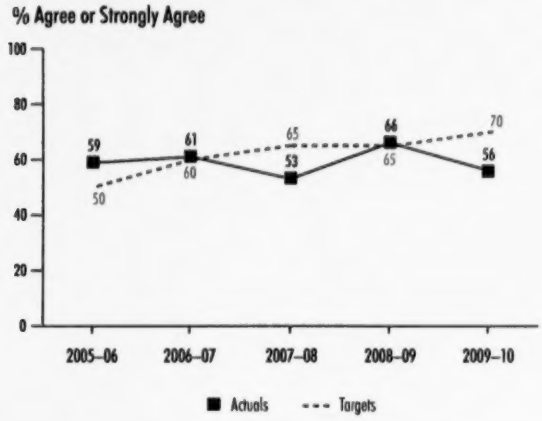


*There was no target before 2007–08.
*No survey was conducted in 2008–09.

Our work adds value for the organizations we audit. Since 2003–04, we have surveyed senior management of organizations subject to our performance audits after tabling the audit report in Parliament.

Our target is to have 70 percent of senior management respondents indicate that they "agree" or "strongly agree" that our performance audits add value for them. The percentage of responses of "agree" or "strongly agree" averaged 56 percent for audits in 2009–10. While this result is below our target, it is only slightly below our five-year average (Exhibit 7). Therefore, we believe that this trend does not warrant any specific action on our part at this time.

Exhibit 7 – Performance audits add value for senior management



Key users of our reports and the organizations we audit respond to our findings. Departments and agencies are responsible for taking corrective action and improving their management practices in response to our audit findings. Annually, we request an update from these organizations on their progress in implementing our recommendations. Beginning in 2007–08, we also asked them to assess their level of implementation. The information we receive is self-reported by the departments and agencies. While we do not subject it to any detailed review or audit, we do consider it for consistency with our current knowledge of the organization. Department chief audit executives are responsible for routinely reporting to their departmental audit committee on whether management's action plans have been implemented and whether there is reason to question the effectiveness of the actions taken. Departmental audit committees are to advise the deputy head of the organization on the effectiveness of arrangements in place for monitoring and following up on management action plans that respond to recommendations from our Office.

Exhibit 8 shows the implementation rate for recommendations made in the performance audits we tabled in 2005–06, after one, two, three, and four years. As the exhibit indicates, departments and agencies need time to act on recommendations. Therefore, we have established that four years is a reasonable period of time to assess the extent to which our recommendations have been implemented. We expect that 75 percent of recommendations will be substantially or fully implemented after

four years. In 2009–10, departments reported that they had substantially or fully implemented 90 percent of recommendations made in the performance audit reports we tabled in 2005–06.

Exhibit 8 – Cumulative percentage of implemented recommendations from reports tabled in 2005–06

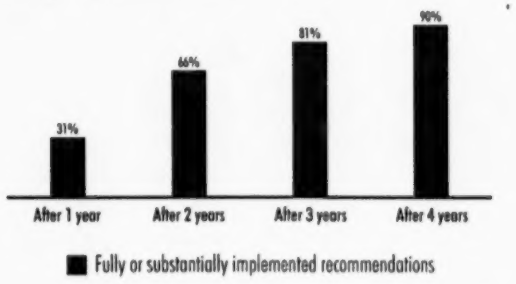
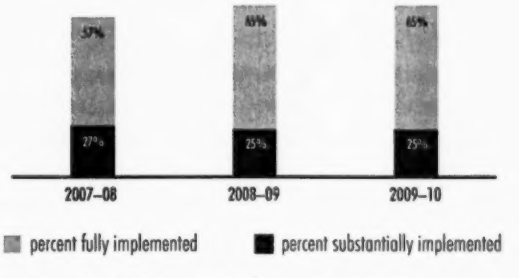


Exhibit 9 shows the trend for implementing recommendations over the past three years. The overall percentage of recommendations implemented four years after the performance audit report was tabled was the same in 2008–09 and 2009–10.

Exhibit 9 – Percentage of performance audit recommendations implemented after four years*



*Departments began self-assessing their level of implementation in 2007–08.

Periodically, we prepare a status report that follows up on the government's progress in responding to recommendations contained in previous performance audits. We audit selected recommendations and findings from prior reports to determine if progress in addressing them has been satisfactory. When we make that determination, we consider the time elapsed since our original report and the complexity and degree of difficulty of remedial action required of the government. These status reports are a way for us to determine—and for parliamentarians to understand—whether government organizations are meeting commitments they made in response to our previous recommendations. We tabled our most recent status report in March 2009 and concluded that for the seven topics we examined, there was satisfactory progress in five.

Special examinations of Crown corporations

A special examination of a Crown corporation answers the following question:

- Do the systems and practices used by Crown corporations provide reasonable assurance that assets are safeguarded and controlled, that resources are managed economically and efficiently, and that operations are carried out effectively?

In 2009–10, we reported on the special examinations of the 10 corporations listed in Section III—Supplementary Information.

We began publishing a chapter presenting the main points of special examinations in 2008 and will continue to present this information annually in our Report to Parliament. Chapter 6 of our 2010 Spring Report, Special Examinations of Crown Corporations—2009, presents the main points of 11 special examination reports. These reports were issued to the Crown corporations' boards of directors between 1 January 2009 and 31 December 2009 and have subsequently been made public. Of these 11 reports, eight identified no significant deficiencies. Three identified one or more significant deficiencies:

- Canada Post Corporation had a significant deficiency related to a strategic risk due to lack of funding for the postal transformation initiative.
- Canada Science and Technology Museum Corporation had a significant deficiency related to its human resource management systems and practices.
- Marine Atlantic Inc. had two significant deficiencies: one related to unresolved strategic challenges, and the other relating to systems and practices in operational planning and capital asset management.

Legislation states that we should bring the information in our reports to the attention of the appropriate ministers and Parliament, when we deem it necessary. For example, we do this when we find certain types of significant deficiencies, such as those related to mandate or governance issues that only the federal government can address, or problems that have previously been reported but continue to occur. We also report issues to the appropriate minister involving specific risks that, in our opinion, the minister needs to be aware of. For the three corporations noted here, we chose to bring the reports to the attention of the appropriate minister.

Exhibit 10 summarizes our performance results for special examinations of Crown corporations for 2009–10.

Exhibit 10—Results for special examinations

Expected results		Actual results	
• Parliament and federal and territorial organizations are engaged in the audit process. • Parliament holds government to account. • Our work is relevant to federal organizations, departments, agencies, and Crown corporations.		We delivered 10 special examination reports on federal Crown corporations in 2009–10. In three of these reports, we identified significant deficiencies, and in one case—Marine Atlantic Inc.—these deficiencies continued from the previous special examination.	
Objectives	**Indicators and targets**	**Performance summary**	**Performance status**
Our work adds value for the key users of our reports.	90 percent of board chairs find our special examinations add value.	80 percent of board chairs who responded to our survey found our special examinations add value.	Not met
Our work adds value for the organizations we audit.	80 percent of Crown corporation chief executive officers find our special examinations add value.	90 percent of Crown corporation chief executive officers who responded to our survey found our special examinations add value.	Exceeded
Key users of our reports and the organizations we audit respond to our findings.	100 percent of significant deficiencies are addressed from one special examination to the next.	50 percent of significant deficiencies were addressed from one special examination to the next.	Not met
Financial resources 2009–10: $4.1 million			

Our work adds value for the key users of our reports and the organizations we audit. To understand the value of our special examinations to the users of these reports and the organizations we audit, we survey board chairs and chief executive officers, respectively. The number of survey respondents is small, corresponding with the number of special examinations we complete each year. We received responses from five of the ten board chairs and five of the ten chief executive officers surveyed in 2009–10. Due to the small number of respondents, detailed results are not presented. We follow up if issues are raised or where opportunities arise to improve our performance. Over the past five years, the feedback we have received has been positive and continues to improve.

Key users of our reports and the organizations we audit respond to our findings. We monitor the corrective action taken in response to significant deficiencies reported in our special examinations. Our indicator is the percentage of significant deficiencies that are addressed by the organizations we audit from one examination to the next. Our target is 100 percent.

For the 10 special examinations completed in 2009–10, two had significant deficiencies in the previous special examination, and in one case the deficiencies continued in 2009–10 (Marine Atlantic Inc.). Due to these significant deficiencies, we concluded that Marine Atlantic Inc. did not have the reasonable assurance required by section 131 of the *Financial Administration Act* that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.

Sustainable development and environmental petitions activities

Sustainable development activities. Under the *Kyoto Protocol Implementation Act* (KPIA), the Commissioner of the Environment and Sustainable Development is required to provide Parliament with a biennial report that includes an analysis of Canada's progress in implementing its climate change plans and an analysis of Canada's progress in meeting its obligations under Article 3, paragraph 1, of the Kyoto Protocol.

Chapter 2 of the 2009 Spring Report of the Commissioner of the Environment and Sustainable Development was our first report under the KPIA. We found that the government is unable to monitor actual emissions reductions resulting from a number of the initiatives in its plans. We also found problems in how the government explained its projected reduction targets.

In June 2010, the Commissioner provided the Minister of Environment with his comments on the government's draft sustainable development strategy, as required under the 2008 *Federal Sustainable Development Act*. The Act required Environment Canada to prepare a federal sustainable development strategy that included goals and targets by June 2010 and to produce a progress report at least once every three years after the day on which the Act came into force. The Commissioner commented on various aspects of the draft strategy, including whether the targets and implementation strategies can be assessed. He concluded that the draft strategy relies on existing mechanisms and government processes to promote more transparency and accountability. He also found that the strategy's lack of specific measurable targets and performance indicators will make it difficult for Environment Canada to provide Parliament with a comprehensive and objective assessment of the government's progress as it is required to do under the Act.

To build awareness of good management practices for sustainable development, in 2009–10, the Commissioner released a discussion paper entitled Managing Sustainable Development. The paper was intended to encourage dialogue among senior federal officials and others about putting sustainable development goals into practice. It highlights a number of analytic techniques and approaches to managing and measuring sustainability.

Environmental petitions. The 1995 amendments to the *Auditor General Act* require that we monitor and report annually to Parliament on environmental petitions received from Canadians. The Commissioner reports on the quantity, nature, and status of petitions received and on the timeliness of ministers' responses. The annual report on environmental petitions was included in the Commissioner's 2009 Fall Report, tabled in Parliament in November 2009.

In 2009–10, the Office received 29 environmental petitions. Ministers delivered 91 percent of responses to petitions on environmental matters within the 120-day time limit, compared with 83 percent last year.

Organizational performance

We measure and manage our performance as an organization in a number of ways. The following section describes our key performance objectives, indicators, and targets and how we performed in 2009–10.

Delivering work on time and on budget

On time. The majority of financial audits of federal Crown corporations (98 percent) were completed on time, but we did not meet our target of 100 percent. All financial audits of other federal organizations with a statutory deadline were completed on time, and we met the target of 100 percent. Completing audits of federal organizations without a statutory deadline on time can be more challenging as these entities are not always ready to be audited within our self-determined deadline of 150 days after the end of the reporting period. Nonetheless, in 2009–10, 86 percent of these audits were completed on time, exceeding our target of 80 percent. Territorial financial audits present some unique challenges, including client readiness; however, we have improved our performance by completing 64 percent of these audits on time in 2009–10, up from 48 percent in 2008–09, and exceeded our target of 60 percent.

For performance audits, the Office determines when individual audit reports will be tabled in the House of Commons; thus, there are no statutory deadlines for these reports. However, we communicate to the House of Commons Standing Committee on Public Accounts our planned tabling schedule for performance audits for the coming fiscal year. In our 2009–10 Report on Plans and Priorities (RPP), 24 performance audits and one study were listed as planned for tabling during that fiscal year. All of the audits were completed as planned, but the study, Managing Sustainable Development—A Discussion Paper by the Commissioner of the Environment and Sustainable Development, was not. It was planned for the fall of 2009 but was completed in the spring of 2010. The target for 2009–10 was 90 percent on time, and our performance was 96 percent.

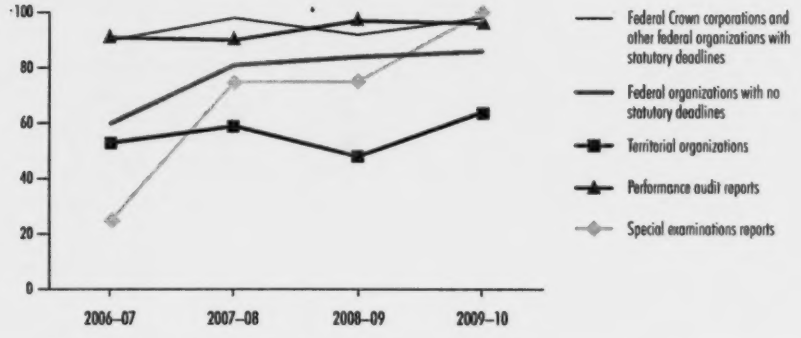
We also issued our report on the design and implementation of Export Development Canada's Environmental Review Directive, which was not listed in the RPP. This report was completed in June 2009, within the time period required by the *Export Development Act*.

Details of the audits tabled are in Section III—Supplementary Information.

In our 2009–10 RPP, we listed 15 special examinations that we planned to complete in 2009–10. Due to the change in legislation that extended the frequency of special examinations from five to ten years, the statutory deadlines changed, and our plan was revised accordingly. The 10 special examinations that were completed in 2009–10 were all delivered on or before the statutory deadline (see List of completed special examinations).

Exhibit 11 shows the trends in our performance for producing our products on time.

Exhibit 11 – Percentage of audits completed on time

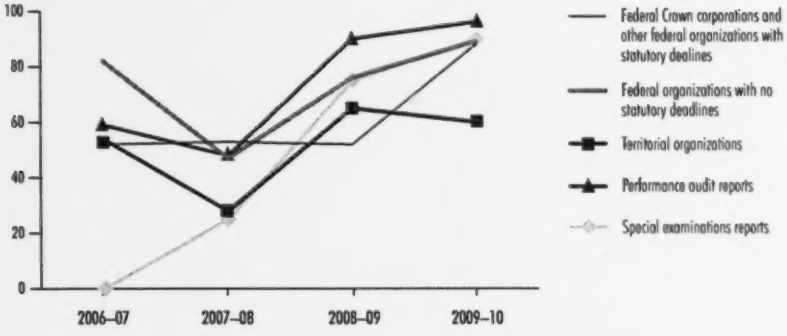


On budget. For all of our audits, being on budget is defined as completing the audit in no more than 115 percent of the budgeted hours for the audit. This figure recognizes that factors outside the control of the audit team, such as client readiness and the number and complexity of audit issues identified, can affect time spent on an audit. It also reflects the balance we want to establish between assuring we do quality work and meeting our budgets.

In 2009–10, our results improved significantly for performing audits on budget, including financial audits of federal Crown corporations and other federal organizations, performance audits, and special examinations. All results are above our target of 70 percent. Our result for performing financial audits of territorial organizations on budget decreased slightly to 60 percent, but met the target of 60 percent.

Exhibit 12 shows the trend in our performance for completing audits on budget. We have raised our targets for our on-budget indicator to 80 percent, beginning in 2010–11.

Exhibit 12 – Percentage of audits completed on budget



Ensuring our audit reports are reliable

Our audit work is guided by a rigorous methodology and quality management system. Annual internal reviews and periodic external peer reviews provide the Auditor General with opinions on whether our audits are conducted in accordance with professional standards, and whether our Quality Management System (QMS) is appropriately designed and effectively implemented. We report publicly on the results of these reviews in order to provide assurance to members of Parliament and the public that they can rely on the opinions and conclusions contained in our audit reports. Our Quality Management System is based on professional standards and Office policies. It guides auditors through a set of steps they must follow during their audits and ensures that these audits are conducted according to professional standards and Office policies. Annual internal reviews also conclude on whether the opinions and conclusions contained in our audit reports are appropriate. External reviews conducted by the provincial institutes of chartered accountants conclude on whether we are following professional standards and meeting their requirements for training chartered accounting students.

Internal practice reviews. Each year, we conduct practice reviews of our financial audits, special examinations, and performance audits by assessing their compliance with our QMS.

In 2008–2009, the practice reviews identified a number of instances where improvements should be made to our QMS and where it was not applied consistently and completely. As a result, we made updating and strengthening the design and implementation of the QMS a strategic priority in 2009–10. We have been addressing this strategic priority, as well as integrating changes to professional standards, through the following initiatives: a major update of our audit manuals and associated methodology, and a review and update of our professional development curriculum. These initiatives will continue through 2011.

In 2009–10, we completed 18 practice reviews—eight of financial audits, eight of performance audits, and two of special examinations. In all cases, the practice reviews found that the opinions and conclusions expressed in our reports were appropriate and supported by the evidence. The reviews found that two audits were in full compliance with our QMS and that five audits had two or fewer areas that needed improvement. In the remaining files, we identified a number of areas where our QMS could have been implemented more rigorously.

While these results are an improvement over last year, the Office is still not satisfied with them. We have again developed action plans for each of our main activities, approved by the Office's Executive Committee, to address the areas for improvement and to support continuous learning by all of our staff.

External reviews. Through peer reviews of the Office, conducted by other national legislative audit offices, we periodically seek independent assurance that our QMS is suitably designed and is operating effectively to produce independent, objective, and supportable information that Parliament can rely on to examine the government's performance and hold it to account. A peer review was conducted in 2009–10 that encompassed all three of our main audit practices, as well as key services that directly support audit operations.

The peer review team found that, for the period under review, the QMS for performance audits, special examinations, and financial audits was suitably designed to provide reasonable assurance that the work of the OAG complied with relevant legislative authorities and professional standards. Also, the QMS was operating effectively for the performance audit and special examination practices. For the annual audit practice, the QMS was generally operating effectively, but it needs to be better implemented to address issues in the following areas:

- The risk assessment procedures that inform the nature and extent of further audit procedures need to be more complete.
- The audit documentation is not always sufficient in recording the results of the audit work performed.

We have prepared an action plan in response to the peer review. The peer review report and the action plan are available on our website.

A second type of external review is conducted by the provincial institutes of chartered accountants, who review our compliance with professional standards and our training of chartered accounting students. No reviews were conducted in 2009–10. However, the most recent reviews by the institutes of five provinces concluded that we were following professional standards and met their training requirements.

Internal audits. We also audit our management and administrative practices. These audits assure the Auditor General that the Office is complying with government and Office policies. They also provide managers with assessments and recommendations. The web location of the list of internal audits and reviews is in Section III—Supplementary Information.

In 2009–10, after the implementation of a new financial system in April 2008, we finalized an internal audit on the controls over the Office's financial transactions and financial reporting system. The findings indicated that the overall controls were designed effectively to prevent or detect a material misstatement in the OAG's financial statements. We also began an audit of compliance with the

office's hospitality policy. The findings of this audit will be reported in our 2010–11 Performance Report. As our internal audits are completed, we publish the results on our website.

The Office's Audit Committee provides the Auditor General with independent advice on matters relating to management controls in the Office and to reporting on its plans and performance. In its 2009–10 report to the Auditor General, it concluded that "the Office has a rational and systematic approach to addressing its mandate, to monitoring its results, and reporting to Parliament and the public."

Providing a respectful workplace

Our values for creating a respectful workplace are trust, integrity, and leading by example. These values define how we conduct ourselves and carry out our work. In addition, the Office strongly supports the values of competency, representativeness, non-partisanship, fairness, employment equity, transparency, flexibility, affordability, and efficiency. The Office includes these values in all of its human resource activities. In addition, since 2005, 50 percent of managers' performance pay has been tied to their people management skills.

The Office has set four objectives for providing a respectful workplace, each with its own indicators and targets:

- Provide a workplace environment where employees are satisfied and engaged
- Promote a bilingual workplace
- Assemble a workforce that represents the Canadian workforce
- Ensure that qualified, capable employees are available to carry out our mandate

Satisfied and engaged employees. We achieved a 91 percent response rate for the 2010 employee satisfaction survey. This result is in the range of levels attained in 2008 (93 percent) and 2006 (85 percent). A survey is conducted every two years.

We obtained an overall satisfaction rating of 78 percent, which falls just short of our target of 80 percent and is lower than levels attained in 2006 (82 percent) and 2008 (88 percent). Employee engagement remains high with 89 percent of staff proud to work for the Office, 85 percent inspired to give their very best, and 80 percent motivated to go beyond their formal job duties. The survey highlighted key strengths, including a perception that the OAG

- is effectively managed and well run,
- has management that is seen to be leading by example, and
- has supervisors who provide recognition and fair performance appraisals.

Staff indicate that their jobs make good use of their skills and abilities and that they have the authority required to do their work. The survey results also showed positive response to actions taken by the Executive Committee since 2008 in the areas of managerial and supervisory effectiveness.

Among the issues noted in the survey is a perceived decline in certain aspects of the Office climate. Employees expressed growing uncertainty about their personal prospects with the Office and continue to raise concerns around the availability of tools and resources to do their jobs effectively. The

Employee Committee will review the current results and make recommendations to the Executive Committee on ways of responding to issues raised in the survey.

A bilingual workforce. The Office has continued to improve its bilingual capacity in the management group. On 31 March 2010, 85 percent of our senior management group (assistant auditors general and principals) met the language requirements of their positions. As for the directors, 84 percent met the language requirements of their positions, a significant increase from last year. The Office marked the 40th anniversary of the *Official Languages Act* by renewing its commitment to promoting bilingualism across the Office. Our 2009–2012 Official Languages Strategy focuses on training and building a supportive culture.

A representative workforce. Even with a slight decrease in its workforce from the previous year, the Office has been able to exceed 100 percent representation of workforce availability for three out of four designated groups and to increase its representation of visible minorities to close to 90 percent of workforce availability.

Retention rate. The retention rate of 89 percent has increased slightly in the past year and remains slightly below our target of 90 percent. The Office is focusing its attention on specific target groups, especially in the accounting field, in order to increase retention.

Financial performance

Our net allowable spending for 2009–10 was $105.3 million. This amount consisted of $92.2 million in current year appropriations, plus $14.0 million in services provided by other government organizations without charge, less non-respendable revenue of $0.9 million.

Parliamentary appropriations

In 2009–10, the Office used $87.8 million of the $92.2 million in parliamentary appropriations approved (Exhibit 13). The $92.2 million comprised $82.2 million in Main Estimates and a further $10.0 million in Supplementary Estimates and adjustments and transfers. The $10.0 million was routine in nature, including the carry-forward funding ($3.5 million), various salary-related entitlements such as retroactive pay from 2007 and economic increases ($3.4 million), parental leave/severance payments ($2.1 million) recovered from the Treasury Board of Canada Secretariat (through the contingency vote) and employment benefit plan adjustments ($1.0 million).

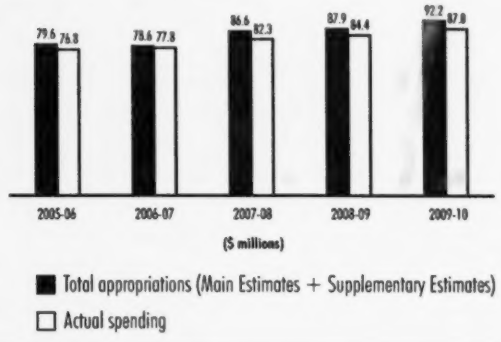
Exhibit 13—Voted and statutory items

		2009–10 ($ millions)			
Vote # or statutory item (S)	Vote or statutory wording	Main Estimates	Planned spending	Total appropriations	Total actual expenditures
15	Program expenditures	72.6	72.6	81.7	77.3
(S)	Contributions to employee benefit plans	9.6	9.6	10.5	10.5
	Total	**82.2**	**82.2**	**92.2**	**87.8**

The Office lapsed $4.4 million in 2009–10 ($3.5 million in 2008–09). Like government departments and agencies, subject to parliamentary approval, the Office may carry forward lapsed amounts and adjustments of up to five percent of its operating budget (based on Main Estimates program expenditures) into the next fiscal year.

Exhibit 14 shows our spending trend from 2005–06 to 2009–10.

Exhibit 14 – Spending trend



Cost of operations

In 2009–10, the net cost of operations for the Office was $99.3 million, as reported in our audited financial statements, compared with $100.1 million in 2008-09. The difference between 2009-10 net cost of operations ($99.3 million) and current year appropriations used ($87.8 million) is due primarily to the cost of services received without charge from other government departments ($14.0 million), offset by other amounts that do not affect the current year use of appropriations, including prepaid expenses, vacation pay, and severance benefits.

Exhibit 15—Planned and Actual Full-Time Equivalents (FTEs)

FTEs	2009–10	2008–09
Planned	620	627
Actual	632	628

Analysis by legislative auditing activity

We reported an original budget of $93.6 million for 2009–10 in our 2009–10 Report on Plans and Priorities, and a revised 2009–10 budget of $100.8 million in our 2010–11 Report on Plans and Priorities. The 2009–10 revised budget (forecast spending) and actual spending (net cost of operations) are presented in Exhibit 1—Performance summary (page 9).

We manage costs for the Office as a whole and also for individual audits. Audit budgets are established for planned hours and planned costs of work. All direct salary, professional service, travel, and other costs associated with the delivery of individual audits and professional practice projects are charged directly to these audits and projects. All other Office expenses, including employee leave, corporate

services, and services provided without charge, are treated as overhead and allocated to audits and professional practice projects based on the salary costs charged to them.

During the year, we reviewed our costing methodology and made changes to simplify the calculation and allocation of overhead to audit products. Consequently, the costs for the year ending 31 March 2009 have been restated to reflect the revised methodology.

Financial audits of Crown corporations, territorial governments, and other organizations

($ millions)	2008–09	2009–10	
	Actual costs[1]	Budget	Actual costs
Financial audits—Crown corporations, territorial governments, and other organizations, and the summary financial statements of the Government of Canada	36.3	41.3	40.0

[1]2008–09 actual costs have been restated to reflect the reclassification of products in our revised product costing methodology.

The costs of this activity in 2009–10 were higher than last year as a result of additional work on the audits of departmental financial statements and the International Labour Organization as well as preliminary work on audit entities adopting International Financial Reporting Standards and significant audit issues in a number of entities. The 2009–10 costs were less than budgeted mainly due to the deferral of our audit of the design and implementation of internal control over financial reporting related to income tax programs at the Canada Revenue Agency.

Performance audits and studies

($ millions)	2008–09	2009–10	
	Actual costs[1]	Budget	Actual costs
Performance audits and studies	44.6	41.5	42.9

[1]2008–09 actual costs have been restated to reflect the reclassification of products in our revised product costing methodology.

Our decision to reduce the number of performance audits we would conduct resulted in a lower number of audits tabled or in progress in 2009–10, resulting in a decrease in costs from 2008–09. This year's actual costs were over budget due primarily to changes in the timing of some audits, which are typically done over two fiscal years, an increase in other investigative work, and risk assessments through the Office's multi-year audit planning process.

Special examinations of Crown corporations

($ millions)	2008–09	2009–10	
	Actual costs[1]	Budget	Actual costs
Special examinations of Crown corporations	8.2	4.5	4.1

[1]2008–09 actual costs have been restated to reflect the reclassification of products in our revised product costing methodology.

The total cost of conducting special examinations of Crown corporations varies depending on the number of examinations under way each year; their nature, size, and complexity; and the risk levels of the corporations being examined. Based on an amendment to the *Financial Administration Act* in 2009, we performed less work on special examinations in 2009–10 because the frequency of special examinations has been changed from a five-year cycle to a ten-year cycle.

Sustainable development monitoring activities and environmental petitions

($ millions)	2008–09	2009–10	
	Actual costs[1]	Budget	Actual costs
Sustainable development monitoring activities and environmental petitions	1.8	2.3	1.2

[1]2008–09 actual costs have been restated to reflect the reclassification of products in our revised product costing methodology.

The costs of this activity in 2009–10 were lower than planned due to a decrease in petitions received, as well as changes in the *Federal Sustainable Development Act* (June 2008), which did not require an audit of sustainable development strategies in 2009 or 2010. Actual costs were also lower than in 2008–09 for the same reasons.

Professional Practices

($ millions)	2008–09	2009–10	
	Actual costs[1]	Budget	Actual costs
Professional practices	9.6	11.8	11.6

[1]2008–09 actual costs have been restated to reflect the reclassification of products in our revised product costing methodology.

The 2009–10 actual costs for this activity were higher than last year's costs mainly due to the beginning of our project to renew our audit methodology. The costs were slightly lower than what was planned for this year, primarily due to reduced costs for international activities.

Our international contribution

Our international strategy guides our international activities and positions the Office to meet future opportunities and challenges. The strategy has four goals:

- contributing to the development and adoption of appropriate and effective professional standards,
- sharing knowledge among audit offices,
- building capabilities and professional capacities of audit offices, and
- promoting better managed and accountable international institutions.

Contributing to the development and adoption of appropriate and effective professional standards

International accounting and auditing standards are influencing Canada's public and private sector standards and will soon be implemented in Canada. The Office plays an active role in shaping these standards, particularly as they relate to the public sector. To that end, employees in the Office participate in various task forces of the International Auditing and Assurance Standards Board to revise and develop International Standards on Auditing. In January 2008, the Auditor General became a member of the International Public Sector Accounting Standards Board of the International Federation of Accountants.

The Office is also a member of the Professional Standards Committee's Subcommittee on Financial Audit Guidelines of the International Organization of Supreme Audit Institutions (INTOSAI). This subcommittee supports and contributes to the development of high-quality guidelines that are globally accepted for auditing financial statements in the public sector.

Sharing knowledge among audit offices

Office employees participate in various committees of INTOSAI, including the Subcommittee on Performance Audit, the Ad hoc Group on Transparency and Accountability, the Working Group on Information Technology Audit, the Working Group on Environmental Auditing, the Working Group on Value and Benefits of Supreme Audit Institutions, the Subcommittee to Promote Increased Capacity Building Activities Among INTOSAI Members, the Working Group on Public Debt, and the Task Force on the Global Financial Crisis. The Auditor General assumed the chair of the Professional Standards Committee's Subcommittee on Accounting and Reporting of INTOSAI in November 2007.

Building capabilities and professional capacities of audit offices

The Office is helping to build capacity in audit institutions located in French sub-Saharan Africa, in partnership with the Canadian International Development Agency (CIDA) and two executing agencies. We provide training to auditors from other national audit offices through the International Legislative Audit Assistance Program for Improved Governance and Accountability of the Canadian Comprehensive Auditing Foundation. This CIDA-funded program, which was established in 1980, brings auditors from other national audit offices to Canada for 10 months of training in performance auditing, accountability, and governance.

Promoting better managed and accountable international institutions

Working with the Department of Foreign Affairs and International Trade, the Office successfully bid to become the external auditor of the International Labour Organization for a four-year term,

effective 2008. The Office is funded through our appropriation for this work. Fees charged to recover the direct costs for this audit are deposited to the Consolidated Revenue Fund. In past years, the Office was also the external auditor of a number of United Nations organizations.

OAG Sustainable Development Commitment

Selected sustainable development commitments and targets		
Commitment	**Indicators and targets**	**2009–10 Actual (%)**
Prepare long-term audit plans and individual performance audits using the Office's environmental risk assessment guide (4th E Practice Guide).	100 percent of audit teams use the Guide's screening tool and consult with environmental specialists to identify and assess environmental risks when they are preparing long-term audit plans.	100
	100 percent of performance audit teams use the Guide's screening tool and consult with internal environmental specialists to determine if there are any important environmental issues related to their audit topic.	100
Provide enhanced support and advice to audit teams conducting special examinations where important environmental risks for Crown corporations have been identified.	100 percent of these cases receive enhanced support and advice starting in 2007.	100

Section III—Supplementary Information

List of supplementary information tables

In addition to the tables in this section, the following supplementary information tables can be found on the Treasury Board of Canada Secretariat website at http://www.tbs-sct.gc.ca/dpr-rmr/2009-10/index-eng.asp or on the Office of the Auditor General website at www.oag-bvg.gc.ca/performance.

- Green procurement
- Internal audits and reviews completed in 2009–10

Financial tables

This table highlights the Office's contracting activity for services in calendar year 2009.

Table 1—Total value of service contracts

	Contracts with original fees less than $25,000			Contracts with original fees $25,000 or more		
	($)	Number	Percentage	($)	Number	Percentage
Competitive contracts	520,414	50	15.2	1,742,113	33	95.3
Non-competitive contracts	2,896,178	505	84.8	86,000	1	4.7
Total	3,416,592	555	100.00	1,828,113	34	100.00

Contracts are classified based on original fees before GST as per the Office's contracting policy. All amounts include fees, expenses, amendments and GST. Contracts with original fees of less than $25,000 are sometimes amended in accordance with the Office's contracting policy and in some cases the total amended value may exceed $25,000—these contracts are still included with "contracts with original fees less than $25,000." There were three (3) non-competitive contracts with original fees of less than $25,000 and an amended value greater than $25,000. The total value of the amendments to the three contracts was $63,740. Further disclosure can be found on the OAG website where we report the total value (original value plus any amended value) of contracts over $10,000 (with GST).

The Auditor General's power to enter into contracts for services is set out in section 16.2 of the *Auditor General Act*; in 2009–10 the Office was not subject to the *Government Contracts Regulations*.

The Auditor General's policy on contracting for services requires that contracts for estimated fees of $25,000 or more be awarded through competition, unless they meet one of the three criteria for exemption: the need is one of pressing urgency, it is not in the public interest to solicit bids due to the nature of the work, or there is only one person capable of performing the work. Contracts that exceed the North American Free Trade Agreement (NAFTA) threshold follow NAFTA rules.

In 2009, the contract with fees greater than $25,000 issued on a non-competitive basis was for legal advice related to an audit.

Table 2—Travel and hospitality expenses

Disclosure of the travel and hospitality expenses for the Auditor General, the Deputy Auditor General, the Commissioner of the Environment and Sustainable Development, and the assistant auditors general is available on our website under Proactive Disclosure.

The Office follows the Treasury Board Travel Directive and the Treasury Board Hospitality Policy, as appropriate for Agents of Parliament.

Table 3—Office memberships[1]

	($ thousands)
Canadian Comprehensive Auditing Foundation (CCAF-FCVI Inc.)	380.0
Conference Board of Canada	11.0
Head of Federal Agencies Secretariat	7.5
International Organization of Supreme Audit Institutions	7.1
Public Policy Forum	5.5
Association des institutions supérieures de contrôle ayant en commun l'usage du français	1.2

[1] The Office participates and supports professional organizations related to its legislative auditing program. The Office also pays individual employee membership fees to a variety of professional organizations.

Table 4—Compensation and benefits

The following is a summary of compensation and selected benefits paid to the Office employees by level. Office employees receive benefits comparable to other federal government employees, which are not included in this table.

Position	FTEs[1]	Salary ($)	Bilingual bonus ($)	Performance pay[2] ($)	Automobile[3] ($)	Membership ($)	Total ($)
Auditor General	1	313,900[4]			4,706	614	319,220
Deputy Auditor General	1	203,395–243,465		0–39,930			203,395–283,395
Commissioner of the Environment and Sustainable Development	1	160,475–210,520		0–34,520			160,475–245,040
Assistant auditors general	15	160,475–191,380		0–31,370			160,475–222,750
Senior principals	5	115,245–166,965		0-27,350			115,245–194,315
Principals	58	115,245–148,640		0–18,730			115,245–167,370
Senior directors	2	89,935–133,580		0–16,880			89,935–150,460
Directors	100	89,935–119,265		0–15,000			89,935–134,265
Auditors	250	44,852–99,559	800	0–3,000			44,852–103,359
Audit service officers	98	54,666–91,025	800				54,666–91,825
Audit service specialists	101	34,180–64,616	800				34,180–65,416
Total FTEs	632						

[1] Full-time equivalents (FTEs) used in the fiscal year 2009–10.

[2] Amounts represent the range that levels are eligible to receive in performance pay.

[3] Taxable benefit for the personal use of an automobile for the 2009 calendar year.

[4] The salary of the Auditor General is set by statute under subsection 4(1) of the Auditor General Act and is equal to the salary of a puisne judge of the Supreme Court of Canada.

Performance pay

Management level employees are evaluated annually on their product management and people management objectives, with each counting for 50 percent of the total performance pay envelope. For calendar year 2009, 191 of eligible management level employees (99 percent) received performance pay for product management, people management, or both. The following chart shows the distribution of performance pay among management level employees.

Performance pay is paid to all managers who meet the objectives of their positions; this performance pay may be in the form of a salary increase and/or a bonus. For these managers, the combined total of the performance pay can range from 7.6 percent to 11.4 percent, depending on the level of the employee. Those management employees who exceed the objectives of their position are eligible for an additional bonus of from 1 percent to 5 percent, depending on their level and performance.

The Office's Performance Pay Guidelines differ from the Public Service Performance Management Plan (PMP) in the amounts paid to management employees. Both systems provide for in-range increases and additional cash lump-sum awards. Public service executives can receive in-range increases and an additional amount for at-risk pay totalling 17.6 percent (27.4 percent for EX-4 and EX-5 level executives). The combined maximum performance pay for the OAG, including in-range increases and bonuses, is 12.6% for Directors and Principals and 16.4% for Senior Principals,

Assistant Auditors General, the Deputy Auditor General, and the Commissioner of the Environment and Sustainable Development. For details of performance pay by level see Table 4.

A total of $2,280,104 in performance pay (including in-range increases and lump sum bonuses) was paid to management level employees for 2009.

Rating description	% of eligible managers who received this rating in 2009	
	Product management	People management
Did not fully meet expectations	1%	1%
Met expectations	58%	66%
Exceeded expectations	38%	32%
Exceptional performance	3%	1%

In addition, 59 non-management auditors (20 percent) received a fixed performance pay of $3,000 in keeping with the Audit Professionals collective agreement.

Financial statements

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

Management's statement of responsibility

Management of the Office of the Auditor General of Canada is responsible for the preparation of the accompanying financial statements and related information contained in this 2009–10 Performance Report. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for the public sector. Where alternative accounting methods exist, management has chosen methods that it believes to be appropriate in the circumstances. Where estimates or judgments have been required, management has determined such amounts on a reasonable basis. Financial information disclosed elsewhere in this performance report is consistent with these audited financial statements.

In meeting its reporting responsibility, management has established and followed policies and procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, operations are in compliance with governing authorities, and financial information is reliable. Selected internal control systems are periodically tested and evaluated by the internal auditors, and management takes any action necessary to respond appropriately to their recommendations. Management recognizes the limits inherent in all systems of internal control but believes the Office has established effective and responsive systems of internal control through the careful selection of employees, appropriate division of responsibilities, training and other professional development activities, and development of formal policies and procedures.

The Office's Executive Committee oversees management's preparation of the financial statements and ultimately approves the financial statements and related disclosures following a recommendation from the Office's Audit Committee. As a basis for recommending approval of the financial statements to the Executive Committee, the Audit Committee reviews management's arrangements for internal controls and the accounting policies employed by the Office for financial reporting purposes. The Audit Committee also meets independently with the Office's internal and external auditors to consider the results of their work.

The external auditors' report, as to the fairness of presentation of these financial statements in conformity with Canadian generally accepted accounting principles, is included in this performance report.

Sheila Fraser, FCA
Auditor General of Canada

Lyn Sachs, FCA
Assistant Auditor General and
Chief Financial Officer

Ottawa, Canada
25 June 2010

Auditors' report

To the Speaker of the House of Commons

We have audited the statement of financial position of the Office of the Auditor General of Canada as at 31 March 2010 and the statements of operations, deficit, and cash flow for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at 31 March 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the Office that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations and the *Auditor General Act*.

Welch LLP
Lévesque Marchand S.E.N.C.
Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
25 June 2010

Office of the Auditor General of Canada
Statement of Financial Position
as at 31 March

	2010	2009
Assets	(in thousands of dollars)	
Current assets		
Due from the Consolidated Revenue Fund	7,494	6,933
Accounts receivable	832	622
Prepaid expenses	358	283
	8,684	7,838
Capital assets (note 4)	3,509	3,497
	12,193	11,335
Liabilities and Deficit		
Current liabilities		
Accounts payable and accrued liabilities		
Due to employees	2,649	5,866
Due to others	4,055	2,113
Vacation pay	3,667	3,637
Current portion of employee future benefits (note 5)	2,479	1,813
	12,850	13,429
Employee future benefits (note 5)	11,542	11,652
Deficit (note 6)	(12,199)	(13,746)
	12,193	11,335

The accompanying notes are an integral part of these financial statements.

Approved by

Sheila Fraser, FCA
Auditor General of Canada

Lyn Sachs, FCA
Assistant Auditor General and
Chief Financial Officer

Office of the Auditor General of Canada
Statement of Operations
for the year ended 31 March

	2010	2009
Expenses (note 7)	(in thousands of dollars)	
Performance audits and studies	42,947	44,588
Financial audits of Crown corporations, territorial governments, and other organizations, and of the summary financial statements of the Government of Canada	40,046	36,328
Special examinations of Crown corporations	4,095	8,190
Sustainable development monitoring activities and environmental petitions	1,157	1,795
Assessments of agency performance reports	358	402
Total cost of audits	88,603	91,303
Professional practices (note 8)	11,627	9,640
Total cost of operations	100,230	100,943
Costs recovered		
International audits	693	782
Other	219	105
Total costs recovered	912	887
Net cost of operations before parliamentary appropriations	99,318	100,056
Parliamentary appropriations used (note 3)	87,825	84,437
Net cost of operations after parliamentary appropriations	11,493	15,619

The accompanying notes are an integral part of these financial statements.

Office of the Auditor General of Canada
Statement of Deficit
for the year ended 31 March

	2010	2009
	(in thousands of dollars)	
Deficit, beginning balance	(13,746)	(10,665)
Net cost of operations after parliamentary appropriations	(11,493)	(15,619)
Services provided without charge by other government departments (note 7)	13,952	13,425
Costs recovered	(912)	(887)
Deficit, ending balance	(12,199)	(13,746)

The accompanying notes are an integral part of these financial statements.

Office of the Auditor General of Canada
Statement of Cash Flow
for the year ended 31 March

	2010	2009
Operating activities	(in thousands of dollars)	
Cash payments		
Employees	(66,436)	(61,573)
Suppliers	(11,064)	(14,402)
Related Parties	(10,992)	(11,700)
	(88,492)	(87,675)
Cash receipts		
Related Parties	1,547	1,443
Others	948	1,029
	2,495	2,472
Parliamentary appropriations used (note 3)	87,825	84,437
Cash provided (used) by operating activities	1,828	(766)
Capital investment activities		
Capital asset acquisitions	(1,267)	(544)
Proceeds from the disposal of capital assets	–	1
Cash used in capital investment activities	(1,267)	(543)
Increase (decrease) in Due from the Consolidated Revenue Fund during the year	561	(1,309)
Due from the Consolidated Revenue Fund, beginning of year	6,933	8,242
Due from the Consolidated Revenue Fund, end of year	7,494	6,933

The accompanying notes are an integral part of these financial statements.

1. Authority and objective

The *Auditor General Act*, the *Financial Administration Act*, and a variety of other acts and orders-in-council set out the duties of the Auditor General and the Commissioner of the Environment and Sustainable Development. These duties relate to legislative auditing of federal departments and agencies; Crown corporations; territorial governments; and other organizations, which include one international organization.

The program activity of the Office of the Auditor General of Canada is legislative auditing and consists of performance audits and studies of departments and agencies; the audit of the summary financial statements of the Government of Canada; financial audits of Crown corporations, territorial governments, and other organizations; special examinations of Crown corporations; sustainable development monitoring activities and environmental petitions; and assessments of agency performance reports.

The Office is funded through annual appropriations received from the Parliament of Canada and is not taxable under the provisions of the *Income Tax Act*.

Pursuant to the *Financial Administration Act*, the Office is a department of the Government of Canada for the purposes of that Act and is listed in Schedule I.1, and is a separate agency for the purposes of Schedule V.

2. Significant accounting policies

a) Basis of presentation

The financial statements of the Office have been prepared in accordance with Canadian generally accepted accounting principles for the public sector.

b) Parliamentary appropriations

The Office's annual parliamentary appropriations are reported directly in the Statement of Operations in the fiscal year for which they are approved by Parliament and used by the Office.

c) Costs recovered

The costs of audits are paid from monies appropriated by Parliament to the Office. Fees for international audits generally recover the direct costs incurred and are recognized in the period the audit services are provided. Amounts recovered are deposited in the Consolidated Revenue Fund and are not available for use by the Office. Other costs recovered represent audit professional services provided to members of the Canadian Council of Legislative Auditors, adjustments to prior year's payables and refunds of prior years' expenses.

d) Due from the Consolidated Revenue Fund

The financial transactions of the Office are processed through the Consolidated Revenue Fund of the Government of Canada. The Due from the Consolidated Revenue Fund balance

represents the amount of cash that the Office is entitled to draw from the Consolidated Revenue Fund, without further appropriations, in order to discharge its liabilities.

e) Capital assets

Capital assets are recorded at historical cost less accumulated amortization. The Office capitalizes the costs associated with the development of software used internally including software licences, installation costs, professional service contract costs, and salary costs of employees directly associated with these projects. The costs of software maintenance, project management and administration, data conversion, and training and development are expensed in the year incurred.

Amortization of capital assets begins when assets are put into use and is recorded by the straight-line method over the estimated useful lives of the assets as follows:

Capital assets	Useful life
Furniture and fixtures	7 years
Leasehold improvements	10 years
Informatics software	3 years
Informatics hardware and infrastructure	3 years
Office equipment	4 years
Motor vehicle	5 years

f) Vacation pay

Vacation pay is expensed as benefits accrue to employees under their respective terms of employment using the employees' salary levels at year end. Vacation pay liabilities represent obligations of the Office that are funded through parliamentary appropriations.

g) Employee future benefits

i) Pension benefits

All eligible employees participate in the Public Service Pension Plan, a multi-employer plan administered by the Government of Canada. The Office's contributions are currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the Plan. The Office's contributions are expensed during the year in which the services are rendered and represent its total pension obligation. The Office is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

ii) Severance benefits

Employees are entitled to severance benefits, as provided for under their respective conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. Management determined the accrued benefit obligation using the employees' salary at year end. Severance benefits are funded through appropriations once employees' departures are confirmed.

h) Services provided without charge by other government departments

Services provided without charge by other government departments are recorded as operating expenses by the Office at their estimated cost. A corresponding amount is reported directly in the Statement of Deficit.

i) Allocation of expenses

The Office charges all direct salary, professional service, travel, and other costs associated with the delivery of individual audits and professional practice projects directly to them. All other expenses, including services provided without charge, are treated as overhead and allocated to audits and professional practices projects based on the direct hours charged to them.

j) Measurement uncertainty

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Capital assets and employee severance benefits are the most significant items for which estimates are used. Actual results could differ significantly from those estimates. These estimates are reviewed annually, and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

3. Parliamentary appropriations

The Office is funded through annual parliamentary appropriations. Items recognized in the Statement of Operations and the Statement of Deficit in one year may be funded through parliamentary appropriations in prior and future years. Accordingly, the Office's net cost of operations for the year based on Canadian generally accepted accounting principles is different than total appropriations used for the year. These differences are reconciled as follows:

a) Reconciliation of net cost of operations to current year appropriations used

	2010	2009
	(in thousands of dollars)	
Net cost of operations before parliamentary appropriations	99,318	100,056
Less: Expenses not requiring the use of appropriations		
Amortization of capital assets	(1,255)	(1,421)
Services provided without charge by other government departments	(13,952)	(13,425)
Add: Costs recovered	912	887
	85,023	86,097
Changes in Statement of Financial Position amounts not affecting the current year use of appropriations[1]	1,535	(2,204)
Current year appropriations applied to operations	86,558	83,893
Capital asset acquisitions funded by appropriations	1,267	544
Current year appropriations used	87,825	84,437

[1] Components of this amount are prepaid expenses, due to employees, vacation pay, and severance benefits.

b) Reconciliation of appropriations provided to current year appropriations used

	2010	2009
Appropriations:	(in thousands of dollars)	
Voted—operating expenditures	81,662	78,623
Statutory contributions to employee benefit plans	10,524	9,315
Proceeds from disposal of capital assets	–	1
Current year appropriations provided	92,186	87,939
Less: Lapsed appropriations[1]	4,361	3,502
Current year appropriations used	87,825	84,437

[1]Subject to parliamentary approval, the Office is allowed to carry forward into the next fiscal year its lapsed appropriations after adjustments up to a maximum of 5 percent of its main estimates operating budget. In 2009–10, the Office had $4.4 million ($3.5 million in 2008–09) in lapsed appropriations after adjustments. The maximum allowed for carry forward into 2010–11 is $3.6 million ($3.6 million into 2009–10).

4. Capital assets

	Cost				Accumulated amortization				2010	2009
	Opening balance	Acquisitions	Disposals	Closing Balance	Opening balance	Amortization	Disposals	Closing Balance	Net book value	Net book value
	(in thousands of dollars)									
Furniture and fixtures	4,643	86		4,729	3,664	563		4,227	502	979
Informatics software	4,085	486	2,392	2,179	3,546	219	2,392	1,373	806	539
Leasehold improvements	3,370	198		3,568	1,617	337		1,954	1,614	1,753
Office equipment	915	216	4	1,127	878	16	4	890	237	37
Informatics hardware and infrastructure	915	281	37	1,159	742	115	37	820	339	173
Motor vehicle	30			30	14	5		19	11	16
	13,958	1,267	2,433	12,792	10,461	1,255	2,433	9,283	3,509	3,497

Amortization expense for the year ended 31 March 2010 is $1.3 million ($1.4 million in 2009)

5. Employee future benefits

a) Pension benefits

The Office's eligible employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best 5 consecutive years of earnings. The benefits are fully indexed to the increase in the Consumer Price Index.

The Office's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor. Office and employee contributions to the Plan are as follows:

	2010	2009
	(in thousands of dollars)	
Office contributions	7,598	6,725
Employee contributions	3,443	2,949

b) Severance benefits

The Office provides severance benefits to its employees based on years of service and salary at termination of employment. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Benefits will be paid from future appropriations. Information about the plan, measured as at 31 March, is as follows:

	2010	2009
	(in thousands of dollars)	
Severance benefit obligation, beginning of year	13,465	13,060
Expense for the year	1,068	854
Benefits paid during the year	(512)	(449)
Severance benefit obligation, end of year	14,021	13,465

6. Deficit

The deficit represents liabilities incurred by the Office, net of capital assets and prepaid expenses, that have not yet been funded through appropriations. Significant components of this amount are employee severance benefits and vacation pay liabilities.

7. Summary of expenses by major classification

Summary of expenses by major classification for the years ended 31 March are as follows:

	2010	2009
	(in thousands of dollars)	
Salaries and employee benefits	76,284	74,066
Office accommodation	8,695	8,507
Professional services	6,673	9,543
Travel and communication	4,263	4,723
Informatics, informatics maintenance and repairs, office equipment, and furniture and fixtures	2,871	2,602
Materials, supplies, and other payments	889	720
Printing and publications services	555	782
Total cost of operations	100,230	100,943

In 2010, the total cost of operations included services provided without charge by other government departments as explained in note 9.

8. Professional practices

The Office works with other legislative audit offices and professional associations, such as the Canadian Institute of Chartered Accountants, to advance legislative audit methodology, accounting and auditing standards, and best practices. International activities include participation in organizations and events that have an impact on our work as legislative auditors. Peer reviews include the cost of participating in peer reviews of other national legislative audit offices and being the subject of a peer review.

	2010	2009
	(in thousands of dollars)	
Methodology and knowledge management	5,831	4,103
International activities	2,798	2,684
Peer reviews	1,139	947
Participation in standard-setting activities	966	929
Canadian Council of Legislative Auditors	893	977
Professional practices	11,627	9,640

9. Related party transactions

The Office is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. The Office enters into transactions with these organizations in the normal course of business and on normal trade terms. As Parliament's auditor, the Office is mindful of its independence and objectivity when entering into any such transactions. The Office

conducts independent audits and studies without charge to federal departments and agencies, Crown corporations, territorial governments, and other organizations.

In 2010, the Office incurred expenses of $26.1 million ($24.6 million in 2009) and recovered expenses of $1.7 million ($1.8 million in 2009) from transactions in the normal course of business with other government departments, agencies, and Crown corporations. These expenses include services provided without charge as follows:

	2010	2009
	(in thousands of dollars)	
Office Accommodation	8,695	8,507
Public Service Health Care Plan and Public Service Dental Plan	5,257	4,918
	13,952	13,425

These amounts are included in expenses shown in note 7.

As at 31 March, the accounts receivable and payable with other government departments, agencies, and Crown corporations are as follows:

	2010	2009
	(in thousands of dollars)	
Accounts receivable	564	383
Accounts payable	1,304	121

These amounts are included respectively in accounts receivable and due to others on the statement of financial position.

10. Comparative figures

Certain 2008–09 comparative figures have been reclassified to conform to the presentation adopted in 2009–10.

Report on staffing

The Auditor General has received the staffing authorities of the Public Service Commission directly through the *Auditor General Act*. Since the Commission must report annually to Parliament for the previous fiscal year on matters under its jurisdiction, the Office of the Auditor General believes it should also report annually on the Office's staffing.

The following table takes into account the Public Service Commission's Staffing Management Accountability Framework. It summarizes the 11 areas of accountability and identifies the indicators present in the Office. The Framework is intended to ensure a values-based staffing system through which the core principles of merit and non-partisanship are applied in accordance with the core values of fairness, transparency, and access.

Staffing: Areas of accountability and indicators

1. Staffing authority: The Auditor General exercises staffing authority pursuant to the *Auditor General Act* and has established a well-defined structure and administration in order to support the achievement of desired results.	
Mechanisms are in place to ensure that sub-delegated managers comply with their sub-delegated authorities.	The Executive Committee approved a written delegation of authority for human resource management. Training was provided to all hiring managers. New appointees to the Management Group (directors and principals) are required to attend a half- to full-day transition session. Issues discussed include human resource responsibilities and delegated authorities.
2. Planning for staffing and monitoring of results: Staffing strategies are planned based on workforce analysis and analysis of staffing trends and patterns.	
Staffing strategies support organizational staffing priorities and align with current and future needs. The OAG assesses the extent to which expected results for staffing are achieved and adjusted, as required.	Staffing needs are assessed annually. Based on these needs, and the Office's budget, full-time equivalent (FTE) positions are allocated to each Assistant Auditor General (AAG). The AAGs are then accountable, with the help of HR, to staff their groups as necessary. The allocation of resources is monitored regularly by the Audit Resource Planning and Career Management Team in order to identify and resolve gaps between needs in specific audits and available resources. Finally, a monthly status report is provided to the Executive Committee on the overall staffing levels and FTE budgets for monitoring.
3. Organizational human resource support systems: These systems ensure that the OAG has access to a reasonable number of HR advisors with appropriate staffing expertise to support hiring decisions.	
Capacity of HR Advisors by volume of staffing. Learning activities undertaken by HR Advisors.	There were about 182 staffing actions in 2009–10. Four staffing officers plus an assistant met the demands. A benchmarking exercise supports the belief that these resources are sufficient. The staffing officers, who must participate in a minimum of 20 hours per year of learning, have taken available training on staffing, both internally and externally.

4. Communication: The OAG is expected to respect the *Public Service Employment Act* and to monitor staffing activities to ensure accountability for staffing decisions.	
Staffing performance deficiencies identified by internal audit are corrected in a timely fashion.	An internal audit on staffing conducted in 2007 pointed out a few areas with deficiencies within the OAG staffing system. The HR team made a number of adjustments to processes to ensure that these deficiencies were addressed. The follow-up to this audit concluded that the appropriate measures were put in place.
5. Flexibility and efficiency: Flexibility and efficiency are required to ensure that resourcing approaches are adapted to the OAG's needs. They also ensure that our staffing system provides good value and is timely and effective.	
Managers are satisfied with the OAG's staffing processes and the length of time it takes to staff a position. Candidates are satisfied with the duration of the processes.	While this is not an area that the OAG has investigated through a formal survey, as a small organization, we regularly seek this information in ad hoc discussions with our hiring managers. The Principal of HR regularly discusses performance of the HR team with assistant auditors general and Service Leaders. Monthly reports are produced identifying open positions and positions staffed during the previous month. Regular meetings are held between staffing officers and managers to review progress on open positions.
6. Merit: Persons appointed meet the essential qualifications, including official languages.	
Managers and candidates are satisfied that the staffing process assesses merit. In-house investigations are conducted as required.	Over the last three employee surveys (since 2006), the percentage of respondents who agreed or were neutral as to whether they had the opportunity to demonstrate their capabilities for a position has been very positive (78-82 percent). In addition, we have had no complaints on the subject of merit requiring us to conduct an in-house investigation into the application of merit criteria.
7. Non-partisanship: Appointments and promotions are done objectively and are free from political influence.	
Managers' perception of external pressure to select a particular candidate. Investigations related to political influence in staffing.	The OAG has not had to conduct any investigations regarding instances of political influence in the staffing process.
8. Representativeness: Appointment processes are conducted without bias and do not create systemic barriers.	
Staffing related provisions or initiatives to increase representativeness.	As the OAG's overall representation is adequate, this is not an area of concern. Promotion, departure, and new-hire data is reviewed and monitored every year to ensure that the OAG has not inadvertently created barriers to employment.
9. Access: Persons from across Canada have a reasonable opportunity to be considered for employment at the OAG.	
Percentage of external appointments that are advertised. Percentage of these external appointments that were advertised nationally.	During the period, 61 percent of external processes were advertised. Of those advertised external processes, 100 percent were advertised nationally.

10. Fairness: Communication ensures the integrity of the appointment process by being transparent, easy to understand, timely, and accessible, and by including the relevant stakeholders.	
Percentage of indeterminate hires converted from casual status. Perception of fairness in staffing: "In my work unit, the process of selecting a person for a position is done fairly."	While the OAG had employed seven casuals in 2009–2010, only one casual employee was converted to a term during the period. Over the last three employee surveys (since 2006), the percentage of employees who responded that they agreed or felt neutral about the fairness of competitions has been positive and increasing (72-81 percent). We also regularly review the fairness and transparency of our promotion processes.
11. Transparency: Information about staffing strategies, decisions, policies, and practices is communicated in an open and timely manner.	
Organizational staffing priorities are communicated on the OAG website, and contents are clearly communicated to managers, employees, and bargaining units, where applicable.	An annual HR report is produced, detailing the number of hires and departures and the turnover rate. It also highlights reasons for departures and anticipated retirement rates. This document is made available to employees on our intranet. All competitions are advertised in both official languages. Competitions open to people outside the Office are advertised on our website ("Careers"). Most of them are also posted on Workopolis.com The multi-year recruitment and retention strategy is available on our intranet.

List of completed performance audits

The following is a list of the performance audits planned for in our 2009–10 Report on Plans and Priorities, including their planned and actual tabling. Names are based on titles of publication.

Federal performance audits

Auditor General of Canada	Included in 2009–10 Plan	Reported in 2009–10
Gender-Based Analysis	Spring 2009	May 2009
Intellectual Property	Spring 2009	May 2009
Health and Safety in Federal Office Buildings	Spring 2009	May 2009
Interest on Advance Deposits from Corporate Taxpayers—Canada Revenue Agency	Spring 2009	May 2009
Financial Management and Control—National Defence	Spring 2009	May 2009
Selected Contribution Agreements—Natural Resources Canada	Spring 2009	May 2009
Special Examinations of Crown Corporations—2008	Spring 2009	May 2009
Commissioner of the Environment and Sustainable Development	**Included in 2009–10 Plan**	**Reported in 2009–10**
Protecting Fish Habitat	Spring 2009	May 2009
Kyoto Protocol Implementation Act	Spring 2009	May 2009
Auditor General of Canada	**Included in 2009–10 Plan**	**Reported in 2009–10**
Evaluating the Effectiveness of Programs	Fall 2009	November 2009
Selecting Foreign Workers Under the Immigration Program	Fall 2009	November 2009
Income Tax Legislation	Fall 2009	November 2009
Electronic Health Records	Fall 2009	November 2009
Acquiring Military Vehicles for Use in Afghanistan	Fall 2009	November 2009
Land Management and Environmental Protection on Reserves	Fall 2009	November 2009
Emergency Management—Public Safety Canada	Fall 2009	November 2009
Strengthening Aid Effectiveness—Canadian International Development Agency	Fall 2009	November 2009
Commissioner of the Environment and Sustainable Development	**Included in 2009–10 Plan**	**Reported in 2009–10**
Applying the Canadian Environmental Assessment Act	Fall 2009	November 2009
Risks of Toxic Substances	Fall 2009	November 2009
National Pollutant Release Inventory	Fall 2009	November 2009
Environmental Petitions	Fall 2009	November 2009

Territorial performance audits

Territorial performance audits	Included in 2009–10 Plan	Reported in 2009–10
Contracting for Goods and Services—Northwest Territories	June 2009	June 2009
Yukon Housing Corporation	February 2010	February 2010
Human Resources Capacity—Government of Nunavut	March 2010	March 2010

Other

Other	Included in 2009–10 Plan	Reported in 2009–10
Managing Sustainable Development—A Discussion Paper by the Commissioner of the Environment and Sustainable Development	Fall 2009	March 2010

The following report was completed in 2009–10 but not listed in the 2009–10 Report on Plans and Priorities: Auditor General of Canada, Environmental Review at Export Development Canada (June 2009)

List of completed special examinations

Special examination	Original statutory deadline	Revised statutory deadline	Transmission date
Business Development Bank of Canada	15 July 2009**	15 July 2014	9 April 2009
Export Development Canada	8 July 2009**	8 July 2014	17 April 2009
Canada Science and Technology Museum Corporation	3 June 2009**	3 June 2014	24 April 2009
Standards Council of Canada	6 October 2009*	6 October 2014	3 June 2009
Canadian Commercial Corporation	13 September 2009*	13 September 2014	23 June 2009
Marine Atlantic Inc.	27 August 2009*	27 August 2014	14 September 2009
Enterprise Cape Breton Corporation	13 October 2009*	13 October 2014	14 September 2009
Canada Post Corporation	7 December 2009*	7 December 2014	26 November 2009
National Gallery of Canada	14 April 2010*	14 April 2014	8 December 2009
Canada Deposit Insurance Corporation	23 November 2009*	23 November 2014	3 March 2010

*2009–10 Report on Plans and Priorities
** Special Examination Schedule

In early 2009, *Budget Implementation Act, 2009* changed the frequency of special examinations in the *Financial Administration Act* from at least once every five years, to at least once every ten years. The statutory deadlines and schedule of planned special examinations were revised following that change.

Consequently, only seven of the fifteen special examinations listed as planned in the 2009–10 RPP were completed in 2009–10. The others are now scheduled for 2010–11 or later.

Our performance indicators and measures

The Office has established a set of core indicators of impact and measures of organizational performance to help inform management decision making.

Our indicators of impact help us to assess the extent to which

- key users of our reports are engaged in the audit process,
- our work adds value for the key users of our reports,
- our work adds value for the organizations we audit, and
- key users of our reports and the organizations we audit respond to our findings.

Our measures of organizational performance help us monitor the extent to which

- our work is delivered on time and on budget,
- our audit reports are reliable, and
- we provide a respectful workplace.

We use surveys to gather feedback from our clients and the organizations we audit on our performance. Information on the surveys can be found on our website at: www.oag-bvg.gc.ca/survey

Indicator Table 1—Summary of our indicators of impact

Objectives and indicators	2008–09 Actual	2009–10 Actual	2009–10 Target
Our work adds value for the key users of our reports.			
Percentage of audit committee chairs who find our financial audits add value	85	95	90
Percentage of parliamentary committee members who find our performance audits add value	n/a[1]	93[2]	90
Percentage of board chairs who find our special examinations add value	97	80	90
Our work adds value for the organizations we audit.			
Percentage of Crown corporation and large-department senior managers who find our financial audits add value	83	85	80
Percentage of departmental senior managers who find our performance audits add value	66[3]	56	70
Percentage of Crown corporation chief executive officers who find our special examinations add value	84	90	80
Key users of our reports are engaged in the audit process.			
Number of parliamentary hearings and briefings we participate in	35	39	Maintain[4]
Percentage of performance audits reviewed by parliamentary committees	57	68	Maintain[4]
Key users of our reports and the organizations we audit respond to our findings.			
Percentage of reservations that are addressed from one financial audit to the next	11	41[5]	100
Percentage of performance audit recommendations substantially or fully implemented four years after their publication (as reported by departments)	90	90	75
Percentage of significant deficiencies that are addressed from one special examination to the next	n/a[6]	50 (1 of 2)[7]	100

[1] There was no survey of parliamentarians carried out in 2008–09.

[2] The results shown for 2009–10 are from the survey of parliamentarians conducted in June 2010.

[3] The performance audit result as published in our 2008–09 Departmental Performance Report (75 percent) has been updated to reflect survey responses received after publication.

[4] There is no numeric target for these indicators since they depend on the number of sitting days there are in Parliament. Instead, the target is to maintain the percentage of parliamentary hearings and briefings we participate in, relative to the number of sitting days, and to maintain the percentage of audits reviewed by parliamentary committees.

[5] In completing our financial audits in 2009–10, we found that only 9 of the 22 reservations contained in our 2008–09 financial audit opinions had been addressed by the organizations we audited.

[6] For all eight special examinations completed in 2008–09, there were either no significant deficiencies in the previous special examination, or there was no previous special examination.

[7] For two of the ten special examinations completed in 2009–10, there had been a significant deficiency in the previous special examination. One of them had been addressed, and the other had not.

Indicator Table 2—Summary of our organizational performance

Objectives and indicators	2008–09 Actual	2009–10 Actual	2009–10 Target
Our work is completed on time			
Percentage of financial audits completed on time[1]			
• federal Crown corporations with statutory deadlines	91	98	100
• other federal organizations with statutory deadlines[2]	100	100	100
• federal organizations with no statutory deadlines	84	86	80
• territorial organizations	48	64	60
Percentage of performance audit reports completed by the planned tabling date as published in the Report on Plans and Priorities	97	96	90
Percentage of special examination reports delivered on or before the statutory deadline	75 (6 of 8)	100 (10 of 10)	100
Our work is completed on budget			
Percentage of audits completed on budget[3]			
• Financial audits—federal Crown corporations	53	90	70
• Financial audits—other federal organizations with statutory deadlines	47	84	70
• Financial audits—federal organizations without a statutory deadline	76	89	70
• Financial audits—territorial organizations	65	60	60
• Performance audits	90	96	70
• Special examinations	75 (6 of 8)	90 (9 of 10)	70
Our audit reports are reliable			
Percentage of internal practice reviews that found the opinions and conclusions expressed in our audit reports were appropriate and supported by the evidence[4]	95 (21 of 22)	100 (18 of 18)	100
External peer reviews find our quality management frameworks are suitably designed and operating effectively	n/a[5]	Mostly[6]	Yes
We provide a respectful workplace			
Percentage of employees who believe the Office is an above-average place to work	n/a[7]	78[8]	80
Percentage of management who meet our language requirements			
• assistant auditors general and principals	85	85	100
• directors in bilingual regions	76	84	75
Percentage representation relative to workforce availability for			
• women	118	117	100
• people with disabilities	119	117	100

Indicator Table 2—Summary of our organizational performance (continued)

Objectives and indicators	2008–09 Actual	2009–10 Actual	2009–10 Target
• Aboriginal peoples	97	137	100
• members of visible minorities	74	90	100
Percentage retention of audit professionals	88	89	90

[1] "On time" for financial audits means the statutory deadline where one exists (usually 90 days after year end), or 150 days after the year end where no statutory deadline exists.

[2] The National Battlefields Commission is excluded from this calculation as its statutory deadline is only 60 days following the year end.

[3] "On budget" means that the actual hours to complete an audit did not exceed the budgeted hours by more than 15 percent.

[4] This indicator replaces "the percentage of internal practice reviews that find our audit in compliance with our quality management frameworks."

[5] There was no external peer review in 2008–09.

[6] An international peer review found that our Quality Management System was suitably designed. It found the QMS was operating effectively for the performance audit and special examinations practices. For the annual audit practice, it found the QMS was generally operating effectively and made recommendations to address two implementation issues.

[7] There was no employee survey. It is a biennial survey.

[8] The employee survey results shown were received in May 2010.

Review and revision of performance targets

We recently reviewed all of our targets and revised some, effective in 2009–10 (Indicator Table 3). We begin our performance target-setting process by identifying any standards established by legislative or other authorities. For example, many of our financial audits have statutory reporting deadlines and, for these audits, our on-time target is 100 percent. Where no such standards exist, we look to identify reasonable expectations and then consider the trend of past performance. For example, while we might expect that all audits would be completed within 150 days of the year end to be timely and useful, our experience has been that about 80 percent are completed within this time period. We believe that our targets represent reasonable performance expectations, and failure to meet them would alert us to a potential problem.

Indicator Table 3—Revised performance targets effective in 2009–10

Objectives and indicators	Original Target	Revised Target
Percentage of audit committee chairs who find our financial audits add value	75	90
Percentage of Crown corporation and large-department senior managers who find our financial audits and special examinations add value	75	80
Percentage of department senior managers who find our performance audits add value	65	70
Percentage of financial audits of federal organizations with no statutory deadlines completed on time	70	80
Percentage of financial audits of territorial organizations completed on time	55	60
Percentage of financial audits of territorial organizations completed on budget	55	60

We set targets that we believe are realistic and attainable while holding ourselves to a high level of performance. For example, while we believe it is not realistic for all users of our reports to find that we always add value on all dimensions that we monitor, we believe that a realistic and high standard is that 9 out of 10 users of our reports would feel this way. We have therefore set a target of 90 percent for all users of our reports. In the case of the indicator of adding value for the organizations we audit, which are not our primary clients, our targets are slightly lower. Based on past results, we have set this target at 80 percent for senior managers subject to our financial audits and special examinations and 70 percent for senior managers subject to our performance audits. Our on-budget targets reflect the fact that our ability to complete audits is sometimes influenced by factors outside of our control, for example entity readiness for audit, and the priority we place on audit quality. We believe that these targets reflect a very positive level of performance and any significantly different result would warrant our attention.